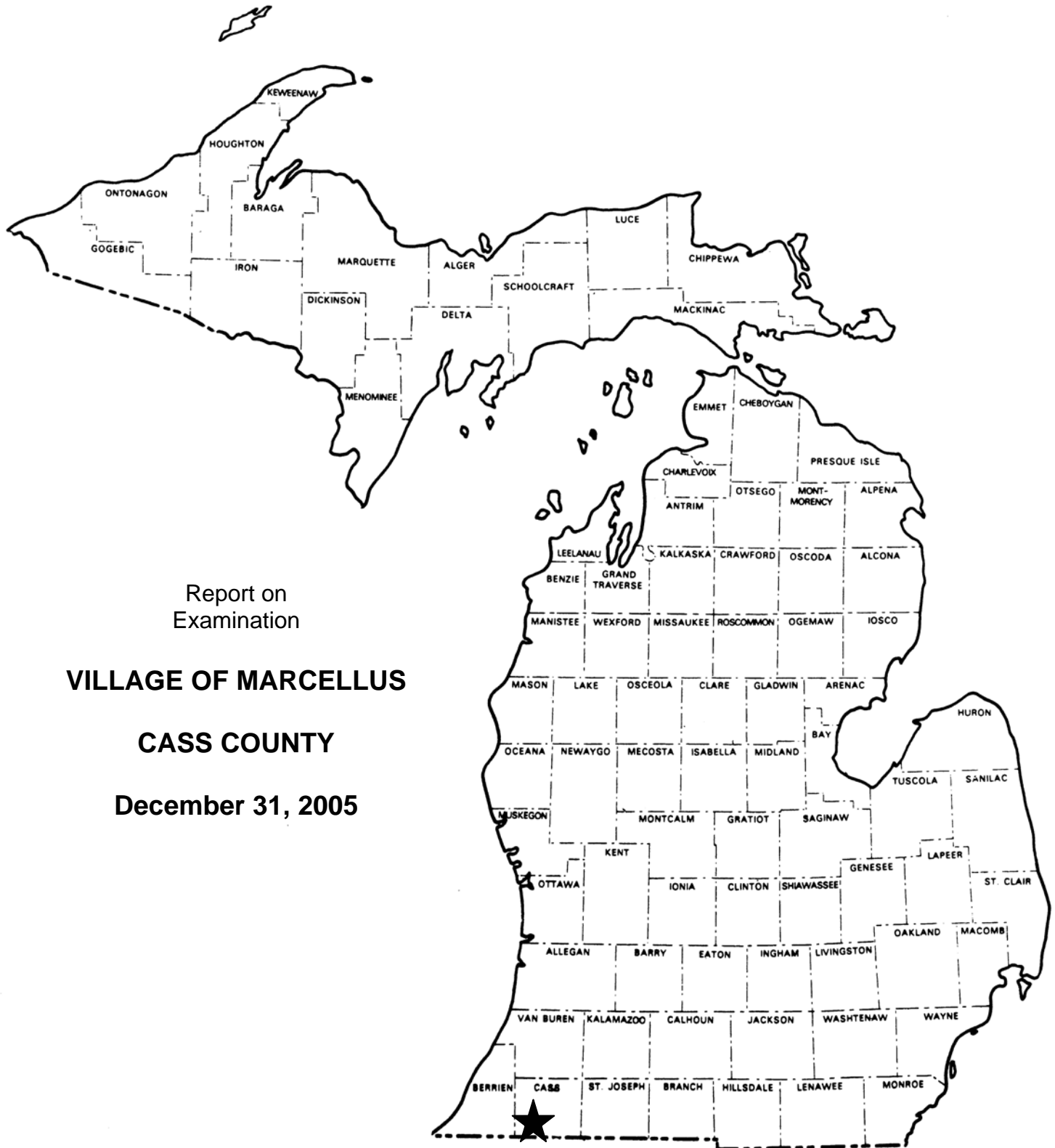


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

VILLAGE OF MARCELLUS

CASS COUNTY

December 31, 2005

VILLAGE OF MARCELLUS

VILLAGE COUNCIL

Larry Davis
President

Burke Webb
Council Member

Scott Wiles
Council Member

Sandra Albain
Council Member

John Haney
Council Member

April Easton
Council Member

VILLAGE POPULATION--2000
1,193

TAXABLE VALUATION--2005
\$54,185,685



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 17, 2006

Village Council
Village of Marcellus
Cass County
P.O. Box 428
Marcellus, Michigan 49067

Independent Auditor's Report

Dear Council Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the Village of Marcellus, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Village of Marcellus' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the Village of Marcellus, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 17, 2006, on our consideration of the Village of Marcellus' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,

and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 5 and the Budgetary Comparisons for each governmental Major Fund, included as Exhibits J through M, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Marcellus' basic financial statements. The general fund detail schedule of revenues and expenditures (Exhibits N through O), are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The general fund detail schedule of revenues and expenditures have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF MARCELLUS

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VILLAGE OF MARCELLUS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village, as a whole, and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's net assets increased approximately 16%, or \$120,539, from \$751,641 to \$872,180 for the year ended December 31, 2005. The investment in capital assets-net of related debt increased by \$5,740 due to additions of the road infrastructure less the depreciation expense recorded for the year 2005. The unrestricted net assets increased by \$81,798 and the restricted assets increased \$33,001 during 2005. Reasons for the increase included the Village's increasing tax base and efforts to keep expenses down.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charges or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net or related debt) are considered restricted.

Net assets as of year ended December 31, 2005, as follows:

| | Governmental Activities 2004 | Governmental Activities 2005 | Difference | Percent |
|----------------------------|------------------------------------|------------------------------------|------------|---------|
| Current Assets | \$ 397,307 | \$ 500,918 | \$ 103,611 | 26% |
| Noncurrent Assets | 400,624 | 406,364 | 5,740 | 1% |
| Total Assets | 797,931 | 907,282 | 109,351 | 14% |
| Current Liabilities | 46,290 | 35,102 | (11,188) | -24% |
| Total Liabilities | 46,290 | 35,102 | (11,188) | -24% |
| Net Assets | | | | |
| Invested in Capital Assets | | | | |
| Net of Debt | 400,624 | 406,364 | 5,740 | 1% |
| Restricted | 107,340 | 140,341 | 33,001 | 31% |
| Unrestricted (Deficit) | 243,677 | 325,475 | 81,798 | 34% |
| Total Net Assets | \$ 751,641 | \$ 872,180 | \$ 120,539 | 16% |

VILLAGE OF MARCELLUS

MANAGEMENT'S DISCUSSION AND ANALYSIS

| | Business-Type Activities 2004 | Business-Type Activities 2005 | Difference | Percent |
|----------------------------|-------------------------------------|-------------------------------------|------------|---------|
| Current Assets | \$ 530,620 | \$ 590,051 | \$ 59,431 | 11% |
| Noncurrent Assets | 1,570,919 | 1,723,628 | 152,709 | 10% |
| Total Assets | 2,101,539 | 2,313,679 | 212,140 | 10% |
| Current Liabilities | 866 | 1,121 | 255 | 29% |
| Long-Term Liabilities | 1,095,000 | 1,076,500 | (18,500) | -2% |
| Total Liabilities | 1,095,866 | 1,077,621 | (18,245) | -2% |
| Net Assets | | | | |
| Invested in Capital Assets | 475,919 | 647,128 | 171,209 | 36% |
| Net of Debt | | | | |
| Unrestricted (Deficit) | 529,754 | 588,930 | 59,176 | 11% |
| Total Net Assets | \$ 1,005,673 | \$ 1,236,058 | \$ 230,385 | 23% |

The following table shows the changes of the net assets as of the current year to the prior year:

| | Governmental Activities 2004 | Governmental Activities 2005 | Difference | Percent |
|------------------------------------|------------------------------------|------------------------------------|------------|---------|
| Program Revenues | | | | |
| Charges for Services | \$ 130,833 | \$ 140,685 | \$ 9,852 | 8% |
| Operating Grants and Contributions | 82,786 | 83,357 | 571 | 1% |
| General Revenues | | | | |
| Property Taxes | 170,500 | 172,727 | 2,227 | 1% |
| State-Shared Revenues | 141,541 | 139,580 | (1,961) | -1% |
| Unrestricted Investment Earnings | 6,146 | 7,275 | 1,129 | 18% |
| Total Revenues | 531,806 | 543,624 | 11,818 | 2% |
| Program Expenses | | | | |
| General Government | 106,994 | 105,930 | (1,064) | -1% |
| Public Safety | 103,865 | 107,071 | 3,206 | 3% |
| Public Works | 177,882 | 180,096 | 2,214 | 1% |
| Community and Economic Development | 120 | 328 | 208 | 173% |
| Recreation and Culture | 3,418 | 7,800 | 4,382 | 128% |
| Other | 26,447 | 21,860 | (4,587) | -17% |
| Total Expenses | 418,726 | 423,085 | 4,359 | 1% |
| Change in Net Assets | \$ 113,080 | \$ 120,539 | \$ 7,459 | 7% |

VILLAGE OF MARCELLUS

MANAGEMENT'S DISCUSSION AND ANALYSIS

| | Business-Type Activities 2004 | Business-Type Activities 2005 | Difference | Percent |
|---|-------------------------------------|-------------------------------------|-------------|---------|
| Program Revenues | | | | |
| Charges for Services | \$ 282,811 | \$ 339,836 | \$ 57,025 | 20% |
| Capital Grants and Contributions | 362,000 | 96,000 | (266,000) | -73% |
| General Revenues | | | | |
| Unrestricted Investment Earnings | 4,753 | 11,140 | 6,387 | 134% |
| Special Item—Loss on Disposal of Capital Assets | (145,197) | | 145,197 | 0% |
| Total Revenues | 504,367 | 446,976 | (57,391) | -11% |
| Program Expenses | | | | |
| Water and Sewer | 276,979 | 284,191 | 7,212 | 3% |
| Total Expenses | 276,979 | 284,191 | 7,212 | 3% |
| Change in Net Assets | \$ 227,388 | \$ 162,785 | \$ (64,603) | -28% |

Governmental Activities

The village's total governmental revenues increased \$9,641 and expenses also decreased \$1,362 as the village activities remained similar to the previous year.

| | Governmental Activities 2004 | Governmental Activities 2005 | Amount Difference | Percent Difference |
|--------------------------------------|------------------------------------|------------------------------------|----------------------|-----------------------|
| Revenues | | | | |
| Taxes | \$ 175,630 | \$ 176,684 | \$ 1,054 | 1% |
| Licenses and Permits | 11,824 | 5,511 | (6,313) | -53% |
| State Grants | 224,327 | 218,368 | (5,959) | -3% |
| Charges for Services | 55,665 | 58,565 | 2,900 | 5% |
| Fines and Forfeits | 50 | 500 | 450 | 900% |
| Interest and Rentals | 69,440 | 86,949 | 17,509 | 25% |
| Other | | 1,004 | 1,004 | 100% |
| Total Revenues | 536,936 | 547,581 | 9,641 | 2% |
| Expenses | | | | |
| General Government | 99,389 | 96,687 | (2,702) | -3% |
| Public Safety | 103,865 | 107,071 | 3,206 | 3% |
| Public Works | 161,806 | 184,011 | 22,205 | 14% |
| Community and Economic Development | 120 | 328 | 208 | 173% |
| Recreation and Culture | 3,418 | 7,800 | 4,382 | 128% |
| Other | 26,447 | 21,860 | (4,587) | -17% |
| Capital Outlay | 35,142 | 11,068 | (24,074) | -69% |
| Total Expenses | 430,187 | 428,825 | (1,362) | 0% |
| Excess of Revenues Over Expenditures | 106,749 | 118,756 | 12,007 | 11% |
| Beginning Fund Balance | 221,862 | 328,611 | 106,749 | 48% |
| Ending Fund Balance | \$ 328,611 | \$ 447,367 | \$ 11,003 | 3% |

VILLAGE OF MARCELLUS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-Type Activities

The Village's business-type activities consist of the Sewer and Water Fund. The Village provides sewage treatment and water to all of their residents. The revenues and expenses of the sewer system for the year have increased as the Village is preparing to overhaul the system in 2006. The revenues for the water increased as the Village raised rates to pay for the new water system built in 2004 and 2005. The new system also increased the Water Fund's depreciation expense but kept other expenses lower than previous years as less work and maintenance for the water system was required.

The Village's Funds

Our analysis of the Village's major funds is listed in the audit report, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2005 include the General Fund, Major Street Fund, Local Street Fund, Municipal Street Fund, Sewer Fund, and the Water Fund.

The General Fund pays for most of the Village's governmental services. The most significant are for general government, public safety, and public works activities, which incurred expenses of approximately \$387,769 in 2005 of which the General Fund paid \$288,266. The Major, Local and Municipal Street Funds paid \$48,980, \$49,611, and \$912, respectively, for public works. These services are supported by the operating millage and State shared revenues. The Major Street Fund and the Local Street Fund account for the Michigan Transportation Funds received from the State and the maintenance performed on the Village's road system. The Municipal Street Fund accounts for the extra voted millage levied to assist the Major and Local Street Fund maintain the Village's road system. The Sewer and Water Fund are described above.

General Fund Budgetary Highlights

Over the course of the year, the Village's budget was prepared to take into account events during the year. No significant changes were made as revenues and expenses remained similar to the previous year.

Capital Asset and Debt Administration

At the end of 2005, the Village's governmental funds had \$406,364 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, equipment, vehicles, and road infrastructure; and \$1,723,628 invested in the sewer and water system. To pay for the sewer and water capital assets, the Village entered into various debt obligations with current outstanding debt totaling \$1,076,500.

VILLAGE OF MARCELLUS
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates

The Village's budget for 2006 will increase as the Village has planned more sidewalk and street repairs. In regards to the sewer system, the expenses will increase as the Village will overhaul the lagoons and pump stations in 2006.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village's office at 177 East Main Street, Marcellus, MI 49067 (Phone Number 269-646-5485).

VILLAGE OF MARCELLUS
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2005

EXHIBIT A

| | PRIMARY GOVERNMENT | | | |
|---|----------------------------|-----------------------------|--------------|-------------------|
| | Governmental Activities | Business-Type Activities | Total | Component Unit |
| <u>ASSETS</u> | | | | |
| Current Assets | | | | |
| Cash and Cash Equivalents | \$ 37,202 | \$ 207,621 | \$ 244,823 | \$ 12,952 |
| Investments | 371,991 | 352,613 | 724,604 | |
| Receivables (Net) | | | | |
| Taxes--Delinquent | 18,449 | | 18,449 | |
| Accounts | 8,317 | 33,354 | 41,671 | |
| Internal Balances | 3,537 | (3,537) | - | |
| Due From State | 61,422 | | 61,422 | |
| Total Current Assets | 500,918 | 590,051 | 1,090,969 | 12,952 |
| Noncurrent Assets | | | | |
| Capital Assets--Net of Accumulated Depreciation | 406,364 | 1,723,628 | 2,129,992 | |
| Total Assets | 907,282 | 2,313,679 | 3,220,961 | 12,952 |
| <u>LIABILITIES</u> | | | | |
| Current Liabilities | | | | |
| Accounts Payable | 30,798 | 1,121 | 31,919 | |
| Accrued Liabilities | 4,304 | | 4,304 | |
| Noncurrent Liabilities | | | | |
| Bonds Payable--Due Within One Year | | 19,500 | 19,500 | |
| Bonds Payable--Due in More Than One year | | 1,057,000 | 1,057,000 | |
| Total Liabilities | 35,102 | 1,077,621 | 1,112,723 | - |
| <u>NET ASSETS</u> | | | | |
| Investment in Capital Assets--Net of Related Debt | 406,364 | 647,128 | 1,053,492 | |
| Restricted for | | | | |
| Major Street | 24,214 | | 24,214 | |
| Local Street | 5,579 | | 5,579 | |
| Municipal Street | 110,548 | | 110,548 | |
| Downtown Development Authority | | | | 12,952 |
| Unrestricted | 325,475 | 588,930 | 914,405 | |
| Total Net Assets | \$ 872,180 | \$ 1,236,058 | \$ 2,108,238 | \$ 12,952 |

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

EXHIBIT B

| Functions/Programs | PROGRAM REVENUES | | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | | | |
|---|------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|--------------|-----------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | PRIMARY GOVERNMENT | | | Component Units |
| | | | | | Governmental Activities | Business-Type Activities | Total | |
| Primary Government | | | | | | | | |
| Governmental Activities | | | | | | | | |
| General Government | \$ 105,930 | \$ 82,120 | \$ 1,004 | | \$ (22,806) | | \$ (22,806) | |
| Public Safety | 107,071 | | | | (107,071) | | (107,071) | |
| Public Works | 180,096 | 58,565 | 82,353 | | (39,178) | | (39,178) | |
| Community and Economic Development | 328 | | | | (328) | | (328) | |
| Recreation and Culture | 7,800 | | | | (7,800) | | (7,800) | |
| Other | 21,860 | | | | (21,860) | | (21,860) | |
| Total Governmental Activities | 423,085 | 140,685 | 83,357 | \$ - | (199,043) | \$ - | (199,043) | |
| Business-Type Activities | | | | | | | | |
| Sewer | 90,740 | 119,198 | | | | 28,458 | 28,458 | |
| Water | 193,451 | 220,638 | | 96,000 | | 123,187 | 123,187 | |
| Total Business-Type Activities | 284,191 | 339,836 | - | 96,000 | - | 151,645 | 151,645 | |
| Total Primary Government | \$ 707,276 | \$ 480,521 | \$ 83,357 | \$ 96,000 | \$ (199,043) | \$ 151,645 | \$ (47,398) | |
| Component Units | | | | | | | | |
| Downtown Development Authority | \$ 20,579 | \$ 37,960 | | | | | | \$ 17,381 |
| Total Component Units | \$ 20,579 | \$ 37,960 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 17,381 |
| General Revenues | | | | | | | | |
| Property Taxes | | | | | \$ 172,727 | | \$ 172,727 | |
| State-Shared Revenues | | | | | 139,580 | | 139,580 | |
| Unrestricted Investment Earnings | | | | | 7,275 | \$ 11,140 | 18,415 | |
| Total General Revenues--Special Items and Transfers | | | | | 319,582 | 11,140 | 330,722 | \$ - |
| Change in Net Assets | | | | | 120,539 | 162,785 | 283,324 | 17,381 |
| Net Assets--Beginning | | | | | 751,641 | 1,073,273 | 1,824,914 | (4,429) |
| Net Assets--Ending | | | | | \$ 872,180 | \$ 1,236,058 | \$ 2,108,238 | \$ 12,952 |

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MARCELLUS
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2005**

EXHIBIT C

| | General | Major Street | Local Street | Municipal Street | Total Governmental Funds |
|---|-------------------|------------------|------------------|---------------------|--------------------------------|
| <u>ASSETS</u> | | | | | |
| Cash and Cash Equivalents | \$ 37,202 | | | | \$ 37,202 |
| Investments | 231,340 | \$ 21,797 | \$ 8,903 | \$ 109,951 | 371,991 |
| Receivables | | | | | |
| Taxes--Delinquent | 13,186 | | | 5,263 | 18,449 |
| Accounts | 8,317 | | | | 8,317 |
| Due From State | 49,865 | 7,964 | 3,593 | | 61,422 |
| Due From Other Funds | 15,119 | | | 597 | 15,716 |
| Total Assets | <u>\$ 355,029</u> | <u>\$ 29,761</u> | <u>\$ 12,496</u> | <u>\$ 115,811</u> | <u>\$ 513,097</u> |
| <u>LIABILITIES AND FUND EQUITY</u> | | | | | |
| Liabilities | | | | | |
| Accounts Payable | \$ 29,916 | \$ 588 | \$ 294 | | \$ 30,798 |
| Due to Other Funds | 597 | 4,959 | 6,623 | | 12,179 |
| Accrued Liabilities | 4,304 | | | | 4,304 |
| Deferred Revenue | 13,186 | | | \$ 5,263 | 18,449 |
| Total Liabilities | <u>48,003</u> | <u>5,547</u> | <u>6,917</u> | <u>5,263</u> | <u>65,730</u> |
| Fund Equity | | | | | |
| Fund Balances | | | | | |
| Reserved for | | | | | |
| Major Street | | 24,214 | | | 24,214 |
| Local Street | | | 5,579 | | 5,579 |
| Municipal Street | | | | 110,548 | 110,548 |
| Unreserved--Undesignated | 307,026 | | | | 307,026 |
| Total Fund Equity | <u>307,026</u> | <u>24,214</u> | <u>5,579</u> | <u>110,548</u> | <u>447,367</u> |
| Total Liabilities and Fund Equity | <u>\$ 355,029</u> | <u>\$ 29,761</u> | <u>\$ 12,496</u> | <u>\$ 115,811</u> | <u>\$ 513,097</u> |

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MARCELLUS
RECONCILIATION OF FUND BALANCES ON THE
BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
December 31, 2005**

EXHIBIT C-1

| | |
|---|------------|
| Fund Balances--Total Governmental Funds | \$ 447,367 |
|---|------------|

Amounts reported for governmental activities in the statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported in the funds

| | |
|----------------------------------|------------------|
| Add--Capital Assets | 795,190 |
| Deduct--Accumulated Depreciation | <u>(388,826)</u> |

| | |
|----------------------------|---------|
| Net Capital Asset Addition | 406,364 |
|----------------------------|---------|

Revenues that do not provide current financial resources are not
reported as revenue in the funds--delinquent property taxes

| |
|---------------|
| <u>18,449</u> |
|---------------|

| | |
|---------------------------------------|--------------------------|
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u><u>\$ 872,180</u></u> |
|---------------------------------------|--------------------------|

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2005

EXHIBIT D

| | MAJOR FUNDS | | | | Total |
|--|--------------------|-----------------|-----------------|---------------------|-----------------------|
| | General | Major Street | Local Street | Municipal Street | Governmental Funds |
| Revenues | | | | | |
| Taxes | \$ 126,533 | | | \$ 50,151 | \$ 176,684 |
| Licenses and Permits | 5,511 | | | | 5,511 |
| State Grants | 139,580 | \$ 51,734 | \$ 27,056 | | 218,370 |
| Charges for Services | 58,565 | | | | 58,565 |
| Fines and Forfeits | 500 | | | | 500 |
| Interest and Rentals | 83,384 | 480 | 784 | 2,299 | 86,947 |
| Other Revenue | 1,004 | | | | 1,004 |
| Total Revenues | 415,077 | 52,214 | 27,840 | 52,450 | 547,581 |
| Expenditures | | | | | |
| Current | | | | | |
| General Government | 96,687 | | | | 96,687 |
| Public Safety | 107,071 | | | | 107,071 |
| Public Works | 84,508 | 48,980 | 49,611 | 912 | 184,011 |
| Community and Economic Development | 328 | | | | 328 |
| Recreation and Cultural | 7,800 | | | | 7,800 |
| Other | 21,860 | | | | 21,860 |
| Capital Outlay | 11,068 | | | | 11,068 |
| Total Expenditures | 329,322 | 48,980 | 49,611 | 912 | 428,825 |
| Excess of Revenues Over (Under) Expenditures | 85,755 | 3,234 | (21,771) | 51,538 | 118,756 |
| Other Financing Sources (Uses) | | | | | |
| Interfund Transfers In | | | 27,350 | | 27,350 |
| Interfund Transfers (Out) | | | | (27,350) | (27,350) |
| Total Other Financing Sources (Uses) | - | - | 27,350 | (27,350) | - |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | 85,755 | 3,234 | 5,579 | 24,188 | 118,756 |
| Fund Balance (Deficit)--January 1, 2005 | 221,271 | 20,980 | - | 86,360 | 328,611 |
| Fund Balance (Deficit)--December 31, 2005 | \$ 307,026 | \$ 24,214 | \$ 5,579 | \$ 110,548 | \$ 447,367 |

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MARCELLUS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED December 31, 2005**

EXHIBIT D-1

| | |
|---|------------|
| Net Change in Fund Balances--Total Governmental Funds | \$ 118,756 |
|---|------------|

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|------------------------------|----------|
| Add--Capital Outlay | 29,918 |
| Deduct--Depreciation Expense | (24,178) |

| | |
|---|----------------|
| Net decrease in revenue between the 2005 delinquent taxes and the 2004 delinquent taxes collected during 2005 | <u>(3,957)</u> |
|---|----------------|

| | |
|---|--------------------------|
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u><u>\$ 120,539</u></u> |
|---|--------------------------|

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MARCELLUS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2005**

EXHIBIT E

| | Major Funds | | Total |
|--|------------------|------------|--------------|
| | Enterprise Funds | | Enterprise |
| | Sewer | Water | Funds |
| <u>ASSETS</u> | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | \$ 187,166 | \$ 20,455 | \$ 207,621 |
| Investments | 116,815 | 235,798 | 352,613 |
| Accounts Receivable | 15,010 | 18,344 | 33,354 |
| Total Current Assets | 318,991 | 274,597 | 593,588 |
| Noncurrent Assets | | | |
| Capital Assets--Net of Accumulated Depreciation | 242,701 | 1,480,927 | 1,723,628 |
| Total Noncurrent Assets | 242,701 | 1,480,927 | 1,723,628 |
| Total Assets | 561,692 | 1,755,524 | 2,317,216 |
| <u>LIABILITIES</u> | | | |
| Current Liabilities | | | |
| Accounts Payable | | 1,121 | 1,121 |
| Due to Other Funds | 1,802 | 1,735 | 3,537 |
| Total Current Liabilities | 1,802 | 2,856 | 4,658 |
| Noncurrent Liabilities | | | |
| Bonds Payable--Due Within One Year | | 19,500 | 19,500 |
| Bonds Payable--Due in More Than One Year | 1,000 | 1,056,000 | 1,057,000 |
| Total Noncurrent Liabilities | 1,000 | 1,075,500 | 1,076,500 |
| Total Liabilities | 2,802 | 1,078,356 | 1,081,158 |
| <u>NET ASSETS</u> | | | |
| Invested in Capital Assets | | | |
| Net of Related Debt | 241,701 | 405,427 | 647,128 |
| Unrestricted | 317,189 | 271,741 | 588,930 |
| Total Net Assets | \$ 558,890 | \$ 677,168 | \$ 1,236,058 |

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS--PROPRIETARY FUNDS
For the Year Ended December 31, 2005

EXHIBIT F

| | Major Funds | | Total |
|--|------------------|------------|--------------|
| | Enterprise Funds | | Enterprise |
| | Sewer | Water | Funds |
| Operating Revenues | | | |
| Charges for Services | \$ 119,198 | \$ 220,638 | \$ 339,836 |
| Total Operating Revenues | 119,198 | 220,638 | 339,836 |
| Operating Expenses | | | |
| Operating Expenses | 3,885 | 10,909 | 14,794 |
| Repairs and Maintenance | 2,192 | 2,298 | 4,490 |
| Contracted Services | 54,882 | 56,035 | 110,917 |
| General Insurance | 2,721 | 4,430 | 7,151 |
| Utilities | 1,845 | 8,684 | 10,529 |
| Vehicle Rental | 5,823 | 19,727 | 25,550 |
| Depreciation | 19,392 | 41,523 | 60,915 |
| Total Operating Expenses | 90,740 | 143,606 | 234,346 |
| Operating Income (Loss) | 28,458 | 77,032 | 105,490 |
| Nonoperating Revenues (Expenses) | | | |
| (Loss) on Disposal of Capital Assets | | | - |
| Interest Earned on Investments | 5,607 | 5,533 | 11,140 |
| Interest Expense | | (49,845) | (49,845) |
| Total Nonoperating Revenues (Expenses) | 5,607 | (44,312) | (38,705) |
| Income (Loss) Before Contributions | 34,065 | 32,720 | 66,785 |
| Capital Contributions | | | |
| Federal Capital Grant | | 96,000 | 96,000 |
| Change in Net Assets | 34,065 | 128,720 | 162,785 |
| Total Net Assets--January 1, 2005 | 457,225 | 548,448 | 1,005,673 |
| Restatement to Net Assets (See Note I) | 67,600 | | 67,600 |
| Restated Net Assets--January 1, 2005 | 524,825 | 548,448 | 1,073,273 |
| Total Net Assets--December 31, 2005 | \$ 558,890 | \$ 677,168 | \$ 1,236,058 |

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2005

EXHIBIT G

| | Major Funds | | Total |
|--|------------------|------------|------------|
| | Enterprise Funds | | Enterprise |
| | Sewer | Water | Funds |
| Cash Flows From Operating Activities | | | |
| Cash Received From Customers | \$ 110,358 | \$ 211,321 | \$ 321,679 |
| Cash Payments to Suppliers for Goods and Services | (71,652) | (101,523) | (173,175) |
| Net Cash Provided by Operating Activities | 38,706 | 109,798 | 148,504 |
| Cash Flows From Noncapital Financing Activities | | | |
| Due From Other Funds | 3,266 | | 3,266 |
| Due To Other Funds | 1,802 | (10,317) | (8,515) |
| Net Cash Provided by Noncapital Financing Activities | 5,068 | (10,317) | (5,249) |
| Cash Flows From Capital and Related Financing Activities | | | |
| Acquisition of Capital Assets | (27,689) | (118,335) | (146,024) |
| Proceeds From Issuance of Bonds | 1,000 | | 1,000 |
| Capital Contributions | | 96,000 | 96,000 |
| Reduction of Debt | | (19,500) | (19,500) |
| Interest Paid on Bonds | | (49,845) | (49,845) |
| Net Cash Provided by Capital and Related Financing Activities | (26,689) | (91,680) | (118,369) |
| Cash Flows From Investing Activities | | | |
| Purchase of Investments | (116,815) | (235,798) | (352,613) |
| Interest on Cash Equivalents | 5,607 | 5,533 | 11,140 |
| Net Cash Provided by Investing Activities | (111,208) | (230,265) | (341,473) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (94,123) | (222,464) | (316,587) |
| Cash and Cash Equivalents at Beginning of Year | 281,289 | 242,919 | 524,208 |
| Cash and Cash Equivalents at End of Year | \$ 187,166 | \$ 20,455 | \$ 207,621 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | | |
| Operating Income (Loss) | \$ 28,458 | \$ 77,032 | \$ 105,490 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities | | | |
| Depreciation Expense | 19,392 | 41,523 | 60,915 |
| (Increase) Decrease in Accounts Receivable | (8,840) | (9,317) | (18,157) |
| Increase (Decrease) in Accounts Payable | (304) | 560 | 256 |
| Net Cash Provided by Operating Activities | \$ 38,706 | \$ 109,798 | \$ 148,504 |

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MARCELLUS
STATEMENT OF NET ASSETS
COMPONENT UNIT
December 31, 2005**

EXHIBIT H

| | |
|---------------------------|--------------------------------------|
| | Downtown Development Authority |
| <u>ASSETS</u> | |
| Cash and Cash Equivalents | <u>\$ 12,952</u> |
| Total Assets | <u>12,952</u> |
| <u>LIABILITIES</u> | |
| Total Liabilities | <u>-</u> |
| <u>NET ASSETS</u> | |
| Unrestricted | <u>12,952</u> |
| Total Net Assets | <u><u>\$ 12,952</u></u> |

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF MARCELLUS
STATEMENT OF ACTIVITIES
COMPONENT UNIT
For the Year Ended December 31, 2005**

EXHIBIT I

| | <u>Downtown Development Authority</u> |
|------------------------|---|
| Program Expenses | |
| General Government | \$ 7,331 |
| Public Works | <u>13,248</u> |
| Total Program Expenses | <u>20,579</u> |
| Program Revenue | |
| Charges for Services | |
| Rent | 35,639 |
| Reimbursements | <u>2,321</u> |
| Total Program Revenue | <u>37,960</u> |
| Net Program Revenue | <u>17,381</u> |
| Change in Net Assets | <u>17,381</u> |
| Net Assets | |
| Beginning of Year | <u>(4,429)</u> |
| End of Year | <u><u>\$ 12,952</u></u> |

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Marcellus is located in Cass County and covers an area of .7 square miles and operates under a general law village form of government. The Village provides services to its 1,193 residents in many areas including: public safety (police), public works, and general government. The Village of Marcellus is a general law village governed by a six member council and president elected by the citizens of the Village.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the Village (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included.

The individual component units discussed below are included in the Village's reporting entity because of the significance of their operational or financial relationships with the Village.

DISCRETELY PRESENTED COMPONENT UNITS

The following component unit is reported within the "component units" column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the Village of Marcellus, but for which the Village is financially accountable, or its relationship with the Village is such that exclusion would cause the Village's financial statements to be misleading or incomplete.

Downtown Development Authority

The Downtown Development Authority exists to encourage economic development in the downtown area of the Village. The governing body of the component unit is appointed by the Village Council. The authority's property tax revenues are levied under the taxing authority of the Village and are included as part of the Village's total tax levy, and the Village is secondarily liable for the authority's bonds. The component unit maintains a general fund as its sole operating fund. Separate financial statements of the individual component unit have not been issued as management believes these general purpose financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit.

VILLAGE OF MARCELLUS
NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

JOINT VENTURE

The Village is a member of the Marcellus Area Emergency Services Association (MAESA); a joint venture of the Village of Marcellus and the Township of Marcellus, formed to provide fire protection within the participating municipalities. Costs of operations and capital expenditures are supported by contributions from the participating municipalities that take into account their respective SEV, population, and number of fire calls. MAESA is managed by a board which consists of three members from each of the participating municipalities. During 2005, the Village contributed \$12,209 to MAESA. The board adopts the MAESA's budget and controls its financing. Complete financial statements for MAESA can be obtained from the MAESA's administration office located at 177 East Main Street, Marcellus, Michigan 49067.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

The Municipal Street Fund accounts for the extra voted millage restricted for use on both the major and local streets.

VILLAGE OF MARCELLUS
NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Village reports the following major proprietary funds:

Sewer Fund accounts for the sewer operations of the Village.

Water Fund accounts for the water operations of the Village.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected to consistently apply all applicable FASB pronouncements, issued subsequent to November 30, 1989, in accounting and reporting for its proprietary operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are collection fees for water and sewer consumption. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Bank Deposits and Investments

The bank deposits are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Property Taxes

The Village's 2005 ad valorem tax is levied and collectible on July 1, 2005. It is the Village's policy to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing of the Village operations. Property taxes are recognized when received. The 2005 State taxable valuation of the Village amounted to \$11,709,723, on which ad valorem taxes levied for all Village purposes are \$169,051. There are 10.3122 mills for general operations and 4.1246 mills for street improvements and are recognized in the respective General and Municipal Street Fund.

Uncollected real property taxes, which become delinquent October 1, are purchased by Cass County and paid to the Village in June of the subsequent year. The delinquent taxes at December 31st are recorded as delinquent taxes receivable and are offset by deferred revenue.

Accounts Receivable

The accounts receivable for the Village are recorded in the General, Water, and Sewer Funds. The receivables are based on the garbage, sewer, and water services provided by the Village. The receivables do not have an allowance for doubtful accounts because any receivables not collected are placed on the customer's tax bill. The receivable for the garbage services in the General Fund is \$5,700, the receivable for the Sewer Fund is \$15,010, and the receivable for the Water Fund is \$18,344, respectively. The receivables are not offset by deferred revenue. The General Fund also has an accounts receivable amount of \$2,617 for a franchise fee receivable due from the local cable company at December 31, 2005, making the total receivable for the General Fund \$8,317.

Taxes Receivable--Delinquent

The taxes receivable delinquent in the General Fund and Municipal Street Fund consist of uncollected real property taxes levied July 1, 2005, which have not been collected at December 31, 2005. The delinquent property taxes for the General and Municipal Street Fund are \$13,186 and \$5,263, respectively, and are offset by deferred revenue in the governmental fund financial statements.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

| | <u>Governmental Funds</u> | <u>Enterprise Funds</u> |
|-----------------------|-------------------------------|-----------------------------|
| Buildings | 20 to 40 years | |
| Vehicles | 5 to 10 years | |
| Equipment | 5 to 10 years | 5 to 10 years |
| Infrastructure--Roads | 10 to 20 years | |
| Sewer System | | 40 years |
| Water System | | 40 years |

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. For new bond issuances after the implementation of GASB No. 34, bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted by the Village Council for the General Fund and Special Revenue Funds after a public hearing is held. However, the Village did not adopt a budget until after the beginning of the fiscal year. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. The Village Council does not monitor or amend the budgets as necessary. Unexpended appropriations lapse at year end.

Excess of Expenditures Over Appropriation in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

During the year, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

| <u>Fund, Function and Activity</u> | <u>Budget</u> | <u>Actual</u> | <u>Excess Expenditures</u> |
|------------------------------------|---------------|---------------|--------------------------------|
| General Fund | | | |
| General Government | | | |
| Attorney | \$ 6,800 | \$ 7,994 | \$ (1,194) |
| Clerk | 23,524 | 46,671 | (23,147) |
| Public Safety | | | |
| Emergency Services | 12,000 | 12,209 | (209) |
| Community and Economic Development | | | |
| Planning Commission | 250 | 328 | (78) |
| Recreational and Cultural | | | |
| Parks and Recreation | 1,500 | 7,800 | (6,300) |
| Local Street Fund | | | |
| Public Works | | | |
| Routine and Preventive Maintenance | 24,083 | 30,202 | (6,119) |

NOTE C--BANK DEPOSITS AND INVESTMENTS

Michigan Compiled Laws (MCL) 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village has designated three banks for the deposit of Village funds. The investment policy adopted by the Village Council in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Village's deposits and investment policy are in accordance with statutory authority.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE C--BANK DEPOSITS AND INVESTMENTS (Continued)

At year end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total Primary Government</u> | <u>Component Units</u> |
|---------------------------|------------------------------------|-------------------------------------|-------------------------------------|----------------------------|
| Cash and Cash Equivalents | \$ 37,202 | \$ 207,621 | \$ 244,823 | \$ 12,952 |
| Investments | <u>371,991</u> | <u>352,613</u> | <u>724,604</u> | |
| Total | <u>\$ 409,193</u> | <u>\$ 560,234</u> | <u>\$ 969,427</u> | <u>\$ 12,952</u> |

At year end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

| | |
|---|-------------------|
| Cash and Cash Equivalents (Checking and Savings Accounts, Certificates of Deposit) | \$ 244,573 |
| Investments in Mutual Funds | 724,604 |
| Petty Cash and Cash on Hand | <u>250</u> |
| Total | <u>\$ 969,427</u> |

The bank balance of the primary government's deposits is \$252,964, of which \$246,103 is covered by Federal depository insurance. The component units' deposits had a bank balance of \$12,952 of which \$12,952 was covered by Federal depository insurance.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Village manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Information about the sensitivity of the fair values of the Village's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Village's investments by maturity:

| <u>Investment Type</u> | <u>Remaining Maturity (in Months)</u> | | |
|------------------------|---------------------------------------|----------------------------|----------------------------|
| | <u>12 Months or Less</u> | <u>13 to 24 Months</u> | <u>25 to 60 Months</u> |
| Government Securities | <u>\$ 724,604</u> | <u>\$ 724,604</u> | |
| Total | <u>\$ 724,604</u> | <u>\$ 724,604</u> | <u>\$ -</u> |

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE C--BANK DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The investment policy of the Village contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) Michigan law, the village's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

| <u>Investment Type</u> | <u>Rated Debt Investments</u> | | | |
|------------------------|-------------------------------|-------------------------|--------------------------|-----------------------|
| | <u>Fair Value</u> | <u>Rating S & P</u> | <u>Fair Value</u> | <u>Rating Moody's</u> |
| Mutual Funds | <u>\$ 724,604</u> | AAAm | <u>\$ 724,604</u> | Aaa |
| Total | <u><u>\$ 724,604</u></u> | | <u><u>\$ 724,604</u></u> | |

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE D--INTERFUND RECEIVABLES AND PAYABLES

The interfund receivables and payables for the primary government and component unit are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|--------------------------|---------------------------------|--------------------------|------------------------------|
| Primary Government | | Primary Government | |
| General | \$ 15,119 | Sewer | \$ 1,802 |
| | | Water | 1,735 |
| | | Major Street | 4,959 |
| | | Local Street | 6,623 |
| Municipal Street | <u>597</u> | General | <u>597</u> |
| Total Primary Government | <u>\$ 15,716</u> | Total Primary Government | <u>\$ 15,716</u> |

NOTE E--CAPITAL ASSETS

Capital asset activity of the Village's governmental funds for the current year, as follows:

| <u>Governmental Activities</u> | <u>Account Balances 01/01/05</u> | <u>Additions</u> | <u>Deductions</u> | <u>Account Balances 12/31/05</u> |
|---------------------------------------|--|------------------|-------------------|--|
| Capital Assets Not Being Depreciated | | | | |
| Land and Improvements | <u>\$ 15,000</u> | <u></u> | <u></u> | <u>\$ 15,000</u> |
| Subtotal | <u>15,000</u> | <u>\$ -</u> | <u>\$ -</u> | <u>15,000</u> |
| Capital Assets Being Depreciated | | | | |
| Buildings | 593,066 | 8,343 | | 601,409 |
| Equipment | 65,706 | 2,725 | | 68,431 |
| Vehicles | 91,500 | | | 91,500 |
| Infrastructure--Roads | <u></u> | <u>18,850</u> | <u></u> | <u>18,850</u> |
| Total | <u>750,272</u> | <u>29,918</u> | <u>-</u> | <u>780,190</u> |
| Less Accumulated Depreciation | | | | |
| Buildings | 243,897 | 15,209 | | 259,106 |
| Equipment | 43,638 | 4,169 | | 47,807 |
| Vehicles | <u>77,113</u> | <u>4,800</u> | <u></u> | <u>81,913</u> |
| Total | <u>364,648</u> | <u>24,178</u> | <u>-</u> | <u>388,826</u> |
| Net Capital Assets Being Depreciated | <u>385,624</u> | <u>29,918</u> | <u>24,178</u> | <u>391,364</u> |
| Governmental Activities Capital Total | | | | |
| Capital Assets--Net of Depreciation | <u>\$ 400,624</u> | <u>\$ 29,918</u> | <u>\$ 24,178</u> | <u>\$ 406,364</u> |

VILLAGE OF MARCELLUS
NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Capital asset activity of the Village's enterprise funds for the current year, as follows:

| <u>Business-Type Activities</u> | <u>Account Balances 01/01/05</u> | <u>Additions</u> | <u>Deductions</u> | <u>Account Balances 12/31/05</u> |
|---|--|-------------------|-------------------|--|
| Capital Assets Being Not Depreciated | | | | |
| Construction in Progress (Sewer System) | | \$ 95,289 | | \$ 95,289 |
| Subtotal | \$ - | 95,289 | \$ - | 95,289 |
| Capital Assets Being Depreciated | | | | |
| Sewer System | 763,446 | | | 763,446 |
| Water System | 1,424,244 | 118,335 | | 1,542,579 |
| Total | 2,187,690 | 118,335 | - | 2,306,025 |
| Less Accumulated Depreciation | | | | |
| Sewer System | 596,642 | 19,392 | | 616,034 |
| Water System | 20,129 | 41,523 | | 61,652 |
| Total | 616,771 | 60,915 | - | 677,686 |
| Net Capital Assets Being Depreciated | 1,570,919 | 118,335 | 60,915 | 1,628,339 |
| Business-Type Activities Capital Total | | | | |
| Capital Assets--Net of Depreciation | <u>\$ 1,570,919</u> | <u>\$ 213,624</u> | <u>\$ 60,915</u> | <u>\$ 1,723,628</u> |

Construction in progress consists of preliminary engineering and planning involved with the overhauling of the sewer system's lift stations and lagoons.

Depreciation expense was charged to programs of the primary government, as follows:

| | |
|--------------------------------|------------------|
| Governmental Activities | |
| General Government | \$ 9,243 |
| Public Works | <u>14,935</u> |
| Total Governmental Activities | <u>\$ 24,178</u> |
| Business-Type Activities | |
| Sewer | \$ 19,392 |
| Water | <u>41,523</u> |
| Total Business-Type Activities | <u>\$ 60,915</u> |

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT

The individual long-term debt of the primary government of the Village, and the changes therein, may be summarized as follows:

| | <u>Balance</u> <u>01/01/05</u> | <u>Additions</u> <u>(Reductions)</u> | <u>Balance</u> <u>12/31/05</u> | <u>Due Within</u> <u>One Year</u> |
|--|-----------------------------------|---|-----------------------------------|--------------------------------------|
| <u>Enterprise--Water Fund</u> | | | | |
| Village of Marcellus Water Fund Contractual Bonds, issued by the Farmers Home Administration, \$300,000, maturing serially through 2020 in the two amounts of \$5,000 and \$10,000, and at an interest rate of 5.0%. | \$ 160,000 | \$ (10,000) | \$ 150,000 | \$ 10,000 |
| Village of Marcellus Water Fund Revenue Bonds, issued by the United State Department of Agriculture, \$792,000 maturing serially through 2042, and at an interest rate of 4.5%. | 785,000 | (8,000) | 777,000 | 8,000 |
| Village of Marcellus Water Fund Revenue Bonds, issued by the United States Department of Agriculture, \$150,000 maturing serially through 2043 and at an interest rate of 4.375%. | 150,000 | (1,500) | 148,500 | 1,500 |
| Village of Marcellus Sewer Fund Revenue Bonds, issued by the United States Department of Agriculture, \$1,707,000 maturing serially through 2045 and at an interest rate of 4.25%. | | 1,000 | 1,000 | |
| Total Long-Term Debt | <u>\$ 1,095,000</u> | <u>\$ (18,500)</u> | <u>\$ 1,076,500</u> | <u>\$ 19,500</u> |

VILLAGE OF MARCELLUS
NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Long-Term Debt--Enterprise Fund (Water Fund)

The annual water fund principal and interest required through maturity for the bonds payable outstanding as of December 31, 2005, as follows:

Date of Issue: September 1, 1987

Amount: \$300,000

Purpose: Water Bonds

| <u>Annual Interest Rate</u> | <u>Date of Maturity</u> | <u>Maturity September 1</u> | <u>Interest Payments</u> | <u>Total Annual Requirements</u> |
|-------------------------------------|-----------------------------|---------------------------------|------------------------------|--|
| 5.0% | 2006 | \$ 10,000 | \$ 7,500 | \$ 17,500 |
| | 2007 | 10,000 | 7,000 | 17,000 |
| | 2008 | 10,000 | 6,500 | 16,500 |
| | 2009 | 10,000 | 6,000 | 16,000 |
| | 2010 | 10,000 | 5,500 | 15,500 |
| | 2011-2015 | 50,000 | 20,000 | 70,000 |
| | <u>2016-2020</u> | <u>50,000</u> | <u>7,500</u> | <u>57,500</u> |
| | | <u>\$ 150,000</u> | <u>\$ 60,000</u> | <u>\$ 210,000</u> |

Interest is payable semi-annually at the rate indicated on March 1 and September 1.

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

2003 Water System Improvement Bonds

The 2003 Water System Improvement Bonds were issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance a water system improvement project for the Village of Marcellus. The total bond issue approved by the U.S. Department of Agriculture, Rural Development, is \$792,000 with interest payable at 4.5% per annum with interest payable semi-annually. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered to the USDA.

| <u>Year</u> | <u>Principal</u> |
|-------------|-------------------|
| 2006 | \$ 8,000 |
| 2007 | 8,000 |
| 2008 | 9,000 |
| 2009 | 9,000 |
| 2010 | 10,000 |
| 2011-2015 | 55,000 |
| 2016-2020 | 69,000 |
| 2021-2025 | 86,000 |
| 2026-2030 | 106,000 |
| 2031-2035 | 132,000 |
| 2036-2040 | 165,000 |
| 2041-2043 | <u>120,000</u> |
| | <u>\$ 777,000</u> |

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

The 2004 Water System Improvement Bonds were issued in accordance with the provisions of Public Act 185 of 1957, as amended, to finance a water system improvement project for the Village of Marcellus. The total bond issue approved by the U.S. Department of Agriculture, Rural Development, is \$150,000 with interest payable at 4.5% per annum with interest payable semi-annually. There is no set interest schedule printed for bond issues because it changes based upon when the payment is delivered to the USDA.

| <u>Year</u> | <u>Principal</u> |
|-------------|-------------------|
| 2006 | \$ 1,500 |
| 2007 | 1,500 |
| 2008 | 1,500 |
| 2009 | 1,500 |
| 2010 | 1,500 |
| 2011-2015 | 10,000 |
| 2016-2020 | 12,000 |
| 2021-2025 | 15,500 |
| 2026-2030 | 19,000 |
| 2031-2035 | 24,500 |
| 2036-2040 | 30,500 |
| 2041-2044 | 29,500 |
| | <u>\$ 148,500</u> |

NOTE G--SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Village maintains two enterprise funds that provide water and sewer services. Segment information for the year ended December 31, 2005, as follows:

| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> |
|---------------------------------|--------------|--------------|--------------|
| Operating Revenues | \$ 119,198 | \$ 220,638 | \$ 339,836 |
| Operating Income (Loss) | 28,458 | 77,032 | 105,490 |
| Nonoperating Revenue (Expenses) | 5,607 | (44,312) | (38,705) |
| Net Income (Loss) | 34,065 | 32,720 | 66,785 |
| Capital Contributions | | 96,000 | 96,000 |
| Land, Buildings, and Equipment | | | |
| Additions | 27,689 | 118,335 | 146,024 |
| Depreciation Expense | 19,392 | 41,523 | 60,915 |
| Net Working Capital | 317,189 | 271,741 | 588,930 |
| Long-Term Debt | 1,000 | 1,075,500 | 1,076,500 |
| Total Assets | 561,692 | 1,755,524 | 2,317,216 |
| Total Net Assets | 558,890 | 677,168 | 1,236,058 |

VILLAGE OF MARCELLUS

NOTES TO FINANCIAL STATEMENTS

NOTE H--RISK MANAGEMENT

The Village of Marcellus is exposed to various risks of loss related to property loss, torts, and errors and omissions and employees' injuries (workers' compensation). The Village has purchased commercial insurance coverage through various policies for general liability, property, vehicle and workmans' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Township's Participating Plan (Plan) operates as an insurance pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

NOTE I--RESTATEMENT OF NET ASSETS-SEWER FUND

In 2004, the Village of Marcellus began the process of overhauling the sewer system's lift stations and lagoons. The preliminary engineering and planning involved with this project was charged as an expense in 2004 and became part of the Sewer Fund's net assets at year end. The restatement to net assets is to remove these initial costs that were expensed and included in the unrestricted net assets at December 31, 2004, and reclassify them as a capital asset.

Sewer Fund

| | |
|--|--------------------------|
| Net Assets--January 1, 2005 | \$ 457,225 |
| Preliminary Engineering Costs Expensed Instead of Being Capitalized | <u>67,600</u> |
| Restated Net Assets--January 1, 2005 | <u><u>\$ 524,825</u></u> |

NOTE J--SUBSEQUENT EVENT

As of December 31, 2005, the Village has \$95,289 invested in the sewer project. To finance the sewer project, the Village has purchased revenue bonds through the United States Department of Agriculture (USDA) in the amount of \$1,707,000 and at an interest of 4.25% to be repaid over the next 40 years. As of year end, \$1,000 of the bonds have been received to begin construction in 2006 for the sewer project.

VILLAGE OF MARCELLUS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT J

| | <u>BUDGETED AMOUNTS</u> | | | |
|--|--------------------------------|----------------------------|------------|---|
| | Original Budget | Final Amended Budget | Actual | Variance With Final Budget Positive (Negative) |
| Revenues | | | | |
| Taxes | \$ 122,000 | \$ 122,000 | \$ 126,533 | \$ 4,533 |
| Licenses and Permits | 7,431 | 7,431 | 5,511 | (1,920) |
| State Grants | 105,379 | 105,379 | 139,580 | 34,201 |
| Charge for Services | 58,000 | 58,000 | 58,565 | 565 |
| Fines and Forfeitures | 500 | 500 | 500 | - |
| Interest and Rentals | 77,300 | 77,300 | 83,384 | 6,084 |
| Other Revenue | - | - | 1,004 | 1,004 |
| Total Revenue | 370,610 | 370,610 | 415,077 | 44,467 |
| Expenditures | | | | |
| General Government | 88,718 | 88,718 | 96,687 | (7,969) |
| Public Safety | 114,525 | 114,525 | 107,071 | 7,454 |
| Public Works | 117,000 | 117,000 | 84,508 | 32,492 |
| Community and Economic Development | 250 | 250 | 328 | (78) |
| Recreational and Cultural | 1,500 | 1,500 | 7,800 | (6,300) |
| Other | 27,500 | 27,500 | 21,860 | 5,640 |
| Capital Outlay | 12,000 | 12,000 | 11,068 | 932 |
| Total Expenditures | 361,493 | 361,493 | 329,322 | 32,171 |
| Excess of Revenues Over (Under) Expenditures | 9,117 | 9,117 | 85,755 | 76,638 |
| Fund Balance--January 1, 2005 | 221,271 | 221,271 | 221,271 | - |
| Fund Balance--December 31, 2005 | \$ 230,388 | \$ 230,388 | \$ 307,026 | \$ 76,638 |

VILLAGE OF MARCELLUS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

EXHIBIT K

| | <u>BUDGETED AMOUNTS</u> | | | Variance With Final Budget Positive (Negative) |
|---|--------------------------------|---------------------|----------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues | | | | |
| State Grants | | | | |
| Michigan Transportation Funds | \$ 51,000 | \$ 51,000 | \$ 51,734 | \$ 734 |
| Interest and Rentals | 380 | 380 | 480 | 100 |
| Total Revenues | 51,380 | 51,380 | 52,214 | 834 |
| Expenditures | | | | |
| Public Works | | | | |
| Routine and Preventive Maintenance | 56,599 | 56,599 | 45,136 | 11,463 |
| Winter | | | | |
| Routine and Preventive Maintenance | 3,844 | 3,844 | 3,844 | - |
| Total Expenditures | 60,443 | 60,443 | 48,980 | 11,463 |
| Excess of Revenues Over (Under) Expenditures | (9,063) | (9,063) | 3,234 | 12,297 |
| Other Financing Sources (Uses) | | | | |
| Interfund Transfers (Out) | (762) | (762) | | 762 |
| Total Other Financing Sources (Uses) | (762) | (762) | - | 762 |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | (9,825) | (9,825) | 3,234 | 13,059 |
| Fund Balance--January 1, 2005 | 20,980 | 20,980 | 20,980 | - |
| Fund Balance--December 1, 2005 | \$ 11,155 | \$ 11,155 | \$ 24,214 | \$ 13,059 |

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

EXHIBIT L

| | <u>BUDGETED AMOUNTS</u> | | | Variance With Final Budget Positive (Negative) |
|---|--------------------------------|---------------------|----------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues | | | | |
| State Grants | | | | |
| Michigan Transportation Funds | \$ 23,880 | \$ 23,880 | \$ 23,345 | \$ (535) |
| Metro Grant | | | 3,711 | 3,711 |
| Interest and Rentals | | | 784 | 784 |
| Total Revenues | <u>23,880</u> | <u>23,880</u> | <u>27,840</u> | <u>3,960</u> |
| Expenditures | | | | |
| Public Works | | | | |
| Preservation/Structural Improvements | 18,850 | 18,850 | 18,850 | - |
| Routine and Preventive Maintenance | 24,083 | 24,083 | 30,202 | (6,119) |
| Winter | | | | |
| Routine and Preventive Maintenance | 559 | 559 | 559 | - |
| Total Expenditures | <u>43,492</u> | <u>43,492</u> | <u>49,611</u> | <u>(6,119)</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(19,612)</u> | <u>(19,612)</u> | <u>(21,771)</u> | <u>(2,159)</u> |
| Other Financing Sources (Uses) | | | | |
| Interfund Transfers In | 19,612 | 19,612 | 27,350 | 7,738 |
| Total Other Financing Sources (Uses) | <u>19,612</u> | <u>19,612</u> | <u>27,350</u> | <u>7,738</u> |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | - | - | 5,579 | 5,579 |
| Fund Balance--January 1, 2005 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balance--December 1, 2005 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,579</u> | <u>\$ 5,579</u> |

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
MUNICIPAL STREET--MAJOR SPECIAL REVENUE FUND
For the Year Ended December 31, 2005

EXHIBIT M

| | BUDGETED AMOUNTS | | | Variance With Final Budget Positive (Negative) |
|---|-------------------------|------------|------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Taxes | \$ 51,689 | \$ 51,689 | \$ 50,151 | \$ (1,538) |
| Interest and Rentals | 1,700 | 1,700 | 2,299 | 599 |
| Total Revenues | 53,389 | 53,389 | 52,450 | (939) |
| Expenditures | | | | |
| Public Works | 912 | 912 | 912 | - |
| Total Expenditures | 912 | 912 | 912 | - |
| Excess of Revenues Over (Under) Expenditures | 52,477 | 52,477 | 51,538 | (939) |
| Other Financing Sources (Uses) | | | | |
| Interfund Transfers (Out) | (27,350) | (27,350) | (27,350) | - |
| Total Other Financing Sources (Uses) | (27,350) | (27,350) | (27,350) | - |
| Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses | 25,127 | 25,127 | 24,188 | (939) |
| Fund Balance--January 1, 2005 | 86,360 | 86,360 | 86,360 | - |
| Fund Balance--December 1, 2005 | \$ 111,487 | \$ 111,487 | \$ 110,548 | \$ (939) |

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF MARCELLUS
STATEMENT OF REVENUES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT N

| | Original Budget | Final Amended Budget | Actual | Variance With Final Budget Positive (Negative) |
|-----------------------------|--------------------|----------------------------|------------|---|
| <u>REVENUES</u> | | | | |
| Property Taxes | | | | |
| Current and Delinquent | \$ 122,000 | \$ 122,000 | \$ 126,533 | \$ 4,533 |
| Total Property Taxes | 122,000 | 122,000 | 126,533 | 4,533 |
| Licenses and Permits | | | | |
| Peddler Permits | 22 | 22 | 30 | 8 |
| Franchise Fees | 7,409 | 7,409 | 5,481 | (1,928) |
| Total Licenses and Permits | 7,431 | 7,431 | 5,511 | (1,920) |
| State Aid | | | | |
| Revenue Sharing | 105,379 | 105,379 | 139,580 | 34,201 |
| Total State Aid | 105,379 | 105,379 | 139,580 | 34,201 |
| Charge for Services | | | | |
| Garbage Use Charges | 58,000 | 58,000 | 58,565 | 565 |
| Total Charge for Services | 58,000 | 58,000 | 58,565 | 565 |
| Fines and Forfeitures | | | | |
| Traffic and Ordinance Fines | 500 | 500 | 500 | - |
| Total Fines and Forfeitures | 500 | 500 | 500 | - |
| Interest and Rentals | | | | |
| Vehicle Rental | 59,000 | 59,000 | 64,109 | 5,109 |
| Village Rental | 12,000 | 12,000 | 12,000 | - |
| Interest | 6,300 | 6,300 | 7,275 | 975 |
| Total Interest and Rentals | 77,300 | 77,300 | 83,384 | 6,084 |
| Other Revenue | | | | |
| Other Miscellaneous | | | 1,004 | 1,004 |
| Total Other Revenue | - | - | 1,004 | 1,004 |
| Total Revenue | \$ 370,610 | \$ 370,610 | \$ 415,077 | \$ 44,467 |

VILLAGE OF MARCELLUS
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT O

| | Original Budget | Final Amended Budget | Actual | Variance With Final Budget Positive (Negative) |
|--|--------------------|----------------------------|------------|---|
| General Government | | | | |
| Village Council | \$ 18,244 | \$ 18,244 | \$ 11,362 | \$ 6,882 |
| Other Professional | 7,650 | 7,650 | 7,065 | 585 |
| Attorney Fees | 6,800 | 6,800 | 7,994 | (1,194) |
| Clerk | 23,524 | 23,524 | 46,671 | (23,147) |
| Treasurer | 4,645 | 4,645 | 1,884 | 2,761 |
| Building and Grounds | 27,855 | 27,855 | 21,711 | 6,144 |
| Total General Government | 88,718 | 88,718 | 96,687 | (7,969) |
| Public Safety | | | | |
| Police | 102,525 | 102,525 | 94,862 | 7,663 |
| Emergency Services | 12,000 | 12,000 | 12,209 | (209) |
| Total Public Safety | 114,525 | 114,525 | 107,071 | 7,454 |
| Public Works | | | | |
| Department of Public Works | 48,000 | 48,000 | 19,050 | 28,950 |
| Street Lights | 13,000 | 13,000 | 11,934 | 1,066 |
| Refuse Collection | 56,000 | 56,000 | 53,524 | 2,476 |
| Total Public Works | 117,000 | 117,000 | 84,508 | 32,492 |
| Community and Economic Development | | | | |
| Planning | 250 | 250 | 328 | (78) |
| Total Community and Economic Development | 250 | 250 | 328 | (78) |
| Recreational and Cultural | | | | |
| Parks and Recreation | 1,500 | 1,500 | 7,800 | (6,300) |
| Total Recreational and Cultural | 1,500 | 1,500 | 7,800 | (6,300) |
| Other | | | | |
| Insurance and Fringes | 27,500 | 27,500 | 21,860 | 5,640 |
| Total Other | 27,500 | 27,500 | 21,860 | 5,640 |
| Capital Outlay | 12,000 | 12,000 | 11,068 | 932 |
| Total Capital Outlay | 12,000 | 12,000 | 11,068 | 932 |
| Total Expenditures | \$ 361,493 | \$ 361,493 | \$ 329,322 | \$ 32,171 |



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 17, 2006

Village Council
Village of Marcellus
Cass County
P.O. Box 428
Marcellus, Michigan 49067

RE: Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards

Dear Council Members:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit and each major fund of the Village of Marcellus, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Village of Marcellus' basic financial statements and have issued our report thereon dated May 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Village of Marcellus' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Marcellus' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Comments and Recommendations section of this report as Findings 05-01 through 05-11.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 05-01 through 05-05 to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Village of Marcellus' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted immaterial instances of noncompliance, which we have reported to the management of the Village of Marcellus in the accompanying Comments and Recommendations section of this report as Findings 05-11 through 05-14.

This report is intended solely for the information and use of the Village of Marcellus' management, the board members, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF MARCELLUS

COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES

Management (Village Council) is responsible for establishing and maintaining a system of internal controls over the accounting procedures. Our study and evaluation of internal control disclosed the following conditions that we believe to be material weaknesses:

General Ledger

Finding 05-1

Condition: The Village's general ledger is balanced, even though the individual funds did not balance due to errors in postings. These errors consisted of posting debit entries to one fund and the corresponding credit entries to another fund.

Criteria: The general ledger is the gathering place for all local unit financial data. Properly maintained, it is a valuable tool of management. The general ledger is the single binder in which all funds and accounts of the Village are maintained.

Cause and Effect: Failure to post accurate accounting records (debits equal credits) on a timely basis may result in the following:

1. The financial condition of the Village may not be readily determined.
2. The Village Council may not be able to make sound business decisions because it has no financial data on which to make an evaluation.
3. The Village Council may obligate more funds than are available, which is a violation of the Uniform Budgeting and Accounting Act.

Recommendation: We recommend that the Village Council establish monthly procedures to assure that all transactions are posted properly to a general ledger and that the individual funds within the general ledger are in balance.

Bank Reconciliations

Finding 05-2

Condition: From December 2005 through April 2006, the Village did not perform bank reconciliations and the cash in the general ledger is not reconciled to the cash in the bank accounts for each individual fund.

VILLAGE OF MARCELLUS

COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

Criteria: The Standards of Internal Control for the Federal Government (which is a good general standard for all types of municipalities) states that reconciliations must be performed as part of internal controls. This is further enhanced by the Uniform Accounting Procedures Manual which states that “all bank accounts must be reconciled to the local unit accounting records monthly and should then be reviewed by the appropriate supervisory personnel.” A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer. The clerk’s records must agree with or reconcile to the treasurer’s and the bank’s records.

Recommendation: We recommend that all bank accounts be reconciled on a timely basis with the accounting records and that all bank accounts be recorded in the accounting records. The clerk and the treasurer should then compare the balances of the general ledger cash balances to the bank reconciliations. The activity in the bank should reconcile back to the general ledger and provide a means to correct errors in posting. The Village must be able to determine how much money each fund has in a particular bank and/or investment account.

Receipting Procedures

Finding 05-3

Condition: The Village currently has two employees responsible for receipting Village revenues, the office person and clerk/treasurer. These two employees are cross trained to be able to perform similar functions in regards to receiving payments, posting payments to the Village’s records, reviewing reports, preparing deposits, and making deposits. No independent review of the revenues received is performed.

Criteria: Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, access restrictions to and accountability for resources and records, and proper documentation of transactions. The Michigan Department of Treasury, Uniform Accounting Procedures Manual, sets forth the minimum internal controls that must be in place in every unit of government in Michigan as follows:

1. When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted.
2. When possible, collections must be reconciled by an individual not involved in the receipting process.

Recommendation: We recommend that the Village implement the aforementioned procedures. Monthly procedures should include comparing receipts written for the month with the receipts register and with bank deposits by other than just the Village clerk/treasurer.

VILLAGE OF MARCELLUS

COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

Capital Assets

Finding 05-4

Condition: The Village does not maintain adequate internal controls for capital assets and a capital asset listing is not maintained in accordance with generally accepted accounting principles.

Criteria: It is the responsibility of the Village to update the capital assets listing for additions and deletions. For the governmental funds, assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. For the enterprise funds, assets purchased during the year should be recorded as increases in the capital asset account and not as an expense. Depreciation expense is also to be recorded for the enterprise funds. Depreciation for governmental capital assets should be recorded on the capital asset schedule. Disposals should equal the reductions to the capital asset records.

Recommendation: We recommend that the Village develop a property management system that includes all of the following steps:

- 1) An inventory of all capital assets owned by the Village should be taken and included in the permanent records of the Village and updated annually.
- 2) All assets owned by the Village should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory suggested above, but will also make it more difficult for assets of the Village to be removed or used by unauthorized personnel.
- 3) As part of the property management system, the Village should keep records on all assets owned by the Village which includes the following information:

| | |
|--------------------------|---|
| -Date of Acquisition | -Date of Disposal (when sold or scrapped) |
| -Tag Number | -Salvage Value (if any) |
| -Description of Property | -Life of Asset |
| -Original Cost of Asset | -Depreciation Method of the Asset |
| -Location of Asset | -Accumulated Depreciation of the Asset |
- 4) Capital assets that meet the Village's capitalization policy should be included on the capital asset listing.
- 5) Capital outlay/assets which are purchased under the established capitalization threshold or assets with life expectancy of less than 1 year, regardless of cost, should be classified as a supply or repairs and maintenance expenditure.

VILLAGE OF MARCELLUS

COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL WEAKNESSES (Continued)

Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to capital assets and provide a system of protection for the assets; it will provide an excellent record for insurance and replacement purposes as well.

Posting of Payroll Expenditures

Finding 05-5

Condition: Beginning in December, the payroll expenditures are not being properly posted to the correct departments in the general ledger. During our testing, we found that the general ledger had incorrect amounts posted to the village council, clerk, and department of public works.

Criteria: Standards of Internal Control for the Federal Government lists *control activities* as one of the five components of internal control. Control activities occur at all levels and include a wide range of diverse activities such as approvals, authorizations, verifications, reconciliations, and performance reviews. According to the Standards for Internal Control, transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire vendor payment and payroll process from the initiation and authorization through its final classification in summary records.

Recommendation: We recommend that the Village implement control activities to ensure that the payroll expenditures are properly posted to the appropriate department or activity.

REPORTABLE CONDITIONS

Payroll Withholdings

Finding 05-6

Condition: Beginning in December, the Village was to submit Federal withholdings on a monthly basis. In February 2006, the Village was penalized for not doing so for the fourth quarter of 2005. For the first quarter of 2006, Federal and State withholdings and the Form 941 were not prepared and transmitted until May 15.

Criteria: Circular E of the Internal Revenue Code states that local units with Federal withholdings greater than \$2,500 per quarter must pay the withholdings by the 15th day of the following month. For withholding amounts not properly or timely deposited, the penalty rates are 2% for 1-5 days late, 5% for 6-15 days late, and 10% for 16 or more days late.

VILLAGE OF MARCELLUS

COMMENTS AND RECOMMENDATIONS

REPORTABLE CONDITIONS (Continued)

Each quarter, all employers who pay wages subject to income tax withholding or Social Security and Medicare taxes must file Form 941, Employer's Quarterly Federal Tax Return, by the last day of the month that follows the end of the quarter. For each whole or part month a return is not filed when required, there is a penalty of 5% of the unpaid tax due with that return. The maximum penalty is 25% of the tax due. Form 941c should generally be prepared for any corrections of the current period and any prior period adjustments (See Circular E for more information).

Recommendation: We recommend that the Village take more care in processing payroll and in reconciling payroll related reports. The Village should ensure that:

- 1) All Federal withholding and Social Security and Medicare withholdings be deposited with the financial institution (to be paid to the IRS) within the time requirement.
- 2) All gross wages are included in the Form 941.
- 3) All calculations in the Form 941 are accurate.
- 4) Any amount due to the IRS is paid, if applicable, on a timely basis.
- 5) Form 941 is filed on a timely basis.

Employee and Employer Portion of Payroll Withholdings

Finding 05-7

Condition: We found that the Village is incorrectly paying the employee's portion and employer's portion of the taxes out of account 101-850 activity.

Criteria: The employee's portion of the taxes should be transferred to a liability line-item. When payment is made to the State or Internal Revenue Service, the employee's portion of the taxes due should be removed from the liability line-item. The employer's portion should be disbursed from the other respective general fund activities (village council, clerk, department of public works).

Recommendation: We recommend that the Village comply with these standards in accounting for payroll taxes.

Debt Payments

Finding 05-8

Condition: The Village is posting the principal payments for the bonds issued as an expense in the enterprise fund rather than a reduction in the bond payable liability balance.

Criteria: Enterprise funds are to be maintained on a full accrual basis of accounting. This requires that all debt instruments be recorded as liability of the fund and reduced as the principal portion of the expense is paid. Interest on the debt is recognized as an expenditure.

VILLAGE OF MARCELLUS

COMMENTS AND RECOMMENDATIONS

REPORTABLE CONDITIONS (Continued)

Recommendation: We recommend that the Village discontinue the practice of posting principal as an expense and properly posting the payments as a reduction to bonds payable liability line items so that expenses and liabilities are not overstated.

Accruals

Finding 05-9

Condition: Accruals (accounts receivable and accounts payable), the recording of the revenues in the accounting period to which they relate, were not recorded for the utilities in the enterprise fund or governmental funds. The Village also does not record the December and February distribution of State Revenue Sharing, the November and December motor transportation funding, or the second payment received from the cable company for franchise fees as a receivable. Therefore, the corresponding revenue accounts are misstated.

Criteria: Governmental funds are to be maintained on a modified accrual basis. Generally accepted accounting principles also require that accounts receivable and accounts payable be established to properly match the fiscal year's revenues and expenses. Enterprise funds are to be maintained on a full accrual basis of accounting.

Recommendation: We recommend that the Village record accruals. The accruals should be reconciled to subsidiary records to support the balances in the respective general ledger accounts.

Investment Policy--Investment Risk Assessments

Finding 05-10

Condition: The Village has not assessed investment risks as required by GASB Statement No. 40.

Criteria: The Governmental Accounting Standards Board adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures," an amendment of GASB Statement No. 3. The provisions of GASB No. 40 are effective for financial statements for periods beginning after June 15, 2004.

The GASB No. 40 summary states in part: "The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed."

VILLAGE OF MARCELLUS

COMMENTS AND RECOMMENDATIONS

REPORTABLE CONDITIONS (Continued)

Recommendation: We recommend that the Village update its investment policy to include the requirements of GASB No. 40 and have the Village Council adopt the new policy. A sample investment policy has been provided to the Village which addresses the risks in the following sections:

1. Credit Risk
2. Interest Rate Risk
3. Custodial Risk (under Safekeeping and Custody)

Fraud Risk Management Program

Finding 05-11

Condition: The management of the Village has not developed a fraud risk management program that is appropriate for the size and complexity of the entity, including identifying fraud risks and taking appropriate action to reduce or eliminate the risks.

Criteria: Statement on Auditing Standards (SAS) AU 110.03 states in part: “Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control that will, among other things, initiate, record, process, and report transactions (as well as events and conditions) consistent with management’s assertions embodied in the financial statements.” Management, along with those who have responsibility for oversight of the financial reporting process (such as the audit committee, board of trustees, board of directors, or the owner in owner-managed entities), should set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud. When management and those responsible for the oversight of the financial reporting process fulfill those responsibilities, the opportunities to commit fraud can be reduced significantly.

Recommendation: We recommend that the Village Council prepare and approved a fraud risk management program.

STATUTORY NONCOMPLIANCE

Expenditures in Excess of Appropriations

Finding 05-11

Condition: Our examination of procedures used by the Village to adopt and maintain operating budgets for the Village’s budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

VILLAGE OF MARCELLUS

COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE (Continued)

The Village's 2005 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level by the Village. As detailed below, actual 2005 expenditures exceeded the Village Council's approved budget allocations for several general fund activities.

During the fiscal year ended December 31, 2005, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund and Special Revenue Funds as follows:

| <u>Fund, Function and Activity</u> | <u>Budget</u> | <u>Actual</u> | <u>Excess Expenditures</u> |
|------------------------------------|---------------|---------------|--------------------------------|
| General Fund | | | |
| General Government | | | |
| Attorney | \$ 6,800 | \$ 7,944 | \$ (1,144) |
| Clerk | 23,524 | 46,671 | (23,147) |
| Public Safety | | | |
| Emergency Services | 12,000 | 12,209 | (209) |
| Community and Economic Development | | | |
| Planning Commission | 250 | 328 | (78) |
| Recreational and Cultural | | | |
| Parks and Recreation | 1,500 | 7,800 | (6,300) |
| Local Street Fund | | | |
| Public Works | 43,492 | 49,611 | (6,119) |

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968.

Direction: We direct that the Village develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

VILLAGE OF MARCELLUS
COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE (Continued)

Village Council--Village Officers; Council; Appointment

Finding 04-3

Condition: On December 29, 2003, the Village of Marcellus appointed one person to fill both the roles of the clerk and the treasurer.

Criteria: According to MCL 62.1, Sec. 1:

“(1) Except as provided in subsections (2) and (3), in each village, the following officers shall be elected: a president, 6 trustees, 1 clerk, and 1 treasurer. The president and trustees constitute the council. In all votes for which not less than a majority vote of council is required, the calculation of the number of votes required shall be based on the maximum number that constitutes council.

(2) The council by a vote of 2/3 of the members of council may provide by ordinance for the reduction in the number of trustees to 4 or for the election of all trustees at the same election for 2-year terms at the first possible election after 2004 who with the president shall constitute the council, and may provide by ordinance for the method of changing from 2-year staggered terms to 4-year staggered terms.”

MCL 62.2 Additional officers; appointment, Section 2 states:

“(1) The president may nominate and the council appoint such officers as shall be provided for by resolution or ordinance of the council. The council may provide by ordinance or resolution for the appointment of other officers whose election or appointment is not specifically provided for in this act, as the council considers necessary for the execution of the powers granted by this act. The powers and duties of such officers shall be prescribed by the council. The council may require that the officers perform their duties faithfully and that proper measures be taken to punish neglect of duty by an officer.”

Attorney General’s Opinion 1947/1948-9 states that, “it would not be suitable or compatible for one person to hold the offices of village clerk and village treasurer at the same time.”

Directive: We direct the Village to comply with the above requirements and maintain the positions of clerk and treasurer as two separate statutory positions.

Biennial Street Programs

Finding 05-13

Condition: The Village does not prepare a biennial street program for its street system.

Criteria: According to MCL 247.664, the Village shall prepare a biennial primary road and major street program, based on long-range plans, and make the programs available for review by the public.

Directive: We direct the Village to adopt a biennial street program in accordance with State statute.

VILLAGE OF MARCELLUS
COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE (Continued)

Failure to Adopt Multi-Year Program

Finding 05-15

Condition: The Village has not adopted a multi-year program for its street system.

Criteria: According to MCL 247.659a Section 7, beginning October 1, 2003, villages shall annually prepare and publish a multi-year program, based on the long-range plans, and developed through the use of the asset management process.

Directive: We direct the Village to adopt the multi-year program and submit the plan to the Michigan Department of Transportation in accordance with State statute.